VEOLIA WATER CENTRAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

(Registered Number 2546950)

Veolia Water Central Limited

Contents

Veolia Water Central Limited

Chairman's Statement

I am pleased to present the Statutory Accounts for the year ended 31 March 2012.

During the year, we have made significant improvements to our operational, asset and customer service performance. The achievements include:

1. 99.99% mean zonal water quality compliance;
2. 15% reduction in the number of burst mains, allowing our water network assets to be assessed as "stable" in terms of serviceability;
3. a reduction in leakage rates of more than 10%, saving more than 20 million litres per day compared to the leakage target which Ofwat set us;
4. 24% reduction in written complaints; and
5. 10% reduction in unwanted telephone contact, being contact from customers which we consider to be preventable and avoidable.

We invested £80m in the period on maintaining and renewing our assets. A key component of our investment programme has been our water network replacement programme. We replaced 134km of water mains in the last twelve months.

Since 2008, we have placed the health and safety of our people and the public at the top of our priorities. Whilst we have seen reductions in the frequency of reportable accidents, our overall company performance needs to continue to improve.

Our financial performance over the past twelve months improved significantly. Our turnover increased to £253m (2011: £240m), in line with inflation. We achieved operating cost efficiencies allowing our operating costs to remain broadly stable at £188m (2011: £187m) despite increased bad debt expense and insurance costs as well as inflationary cost pressures. We achieved a profit of £4m on the sale of properties (2011: £1m loss) and interest expense remained stable at £20m. Our overall profit after tax for the year was £36m (2011: £21m).

During the last two consecutive autumn and winter periods there has been below average rainfall in our area, resulting in very low groundwater recharge (two-thirds of our resources are groundwater). During the year our groundwater declined to the level we class as severe drought. We responded as required by our drought management plan, which sets out the measures we need to take to manage water supplies, depending on the severity of the drought conditions. We introduced a temporary use ban on 5 April 2012 along with six other water companies in the South East of England. We have stepped up publicity about drought and water efficiency measures to increase awareness amongst our customers and encourage them to use water carefully. Over the summer, we will be making greater use of surface water sources in order to alleviate the environmental effects of our groundwater abstraction on chalk rivers and streams in our area.

Following discussions with Ofwat during 2011, we made a formal application to Ofwat on 23 February 2012 to unify Veolia Water Central Limited, Veolia Water East Limited and Veolia Water Southeast Limited so as to operate the three areas under a single licence. The next stage of the unification process was a period of formal public consultation by Ofwat. This closed on 20 April 2012, and at the date of signing these financial statements we are awaiting Ofwat's decision.

On 6 December 2011, the company's ultimate parent company and controlling party, Veolia Environnement SA, announced its intention to sell its regulated water interests in the UK, including Veolia Water Central Limited. The sale is expected to be completed in 2012.

Veolia Water Central Limited

Chairman's Statement (continued)

On behalf of the Board, I would like to thank all our people for their hard work and achievements in a year of continued uncertainty and change. I would also like to express my appreciation for the loyal service and significant accomplishments of Frédéric Devos who resigned from the Board during the course of the year.

Olivier Bret
Chairman
8 June 2012

Veolia Water Central Limited

Directors

O Bret (Chairman from 25 January 2012)
Olivier Bret is French and was appointed a director and Chairman on 25 January 2012. He is also the Chief Executive Officer of Veolia Water UK Plc and a director of Veolia Water Central Finance Plc, Veolia Environnement UK Limited and a number of other Veolia Water UK Plc subsidiaries.

R A Bienfait (Managing Director)
Richard Bienfait is British and was appointed a director in 2006. He was appointed Managing Director in 2010. He is also a Director of Veolia Water Central Finance Plc, Veolia Water UK Plc and other Veolia Water UK Plc subsidiaries.

Baroness Buscombe
Baroness Buscombe is British and was appointed a director in 2006. She is a barrister, a member of the House of Lords and has held a number of Shadow Ministerial positions. She was formerly chairman of the Press Complaints Commission.

F Devos (Chairman until 25 January 2012)
Frederic Devos is French and resigned as a director and Chairman on 25 January 2012.

P Guitard
Philippe Guitard is French and was appointed a director in 2008. He is Executive Vice President Europe of Veolia Water SA.

O Grunberg
Olivier Grunberg is French and was appointed a director in 2008. He is the General Secretary of Veolia Transdev.

Dr N W Summerton CB
Neil Summerton is British and was appointed a director in 2000 having been a director of North Surrey Water Limited from 1998 to 2000. He was appointed chairman of the Audit Committee in 2009. He is also a director of Veolia Water South East Limited and from 1991 to 1997 was responsible for water policy at the Department of the Environment.

F Woolf CBE
Fiona Woolf is British and was appointed a director in 2006. She is an Alderman in the City of London, a Member of the Competition Commission, a Consultant with CMS Cameron McKenna and a trustee of Raleigh International.

Veolia Water Central Limited

Board Committees, Executives and Advisers

Audit Committee
Dr N W Summerton (Chairman)
Baroness Buscombe
M Butcher (to 30 April 2012)
F Woolf

Executive Management Committee
R A Bienfait (Chairman)
D Bates (from 1 March 2012)
O Bret (from 25 January 2012)
G Chalkley (to 31 August 2011)
A Dench
F Devos (to 25 January 2012)
S Martin
A McAlinden (from 31 March 2012)
T Monod
V Muldoon
N Paterson
M Rowlatt (to 31 March 2012)

Remuneration and Employment Committee
O Bret (Chairman) (from 25 January 2012)
F Devos (Chairman) (to 25 January 2012)
Dr N W Summerton

Company Secretary and Registered Office
T J W Monod
Tamblin Way
Hatfield
Hertfordshire AL10 9EZ

Registered Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Veolia Water Central Limited

Report of the Directors

Introduction

The directors present their report and the audited statutory financial statements for the year ended 31 March 2012.

Principal activity

The principal activity of the company is the supply of water and related services to approximately three million people and businesses in an area of 3,738 square kilometres of Berkshire, Buckinghamshire, Hertfordshire, Bedfordshire, Essex, Surrey and several London Boroughs.

Directors

The directors of the company, together with their periods of office and their biographical details, are shown on page 5.

Going concern

In December 2011 the company's ultimate parent company and controlling party, Veolia Environnement SA, announced the intent to sell its UK regulated water interests, including Veolia Water Central Limited. Whilst the intentions of future shareholders and directors of the company cannot be anticipated, the current directors believe that, given the nature of the company's operations, the company will continue trading for the foreseeable future. The latest approved financial projections produced by the directors show that the company will continue to be profitable and continue to generate positive cash flows. The company made a profit in the financial year and has net assets which are considered to be fully recoverable and, on this basis, the directors believe it is appropriate to prepare the accounts on a going concern basis.

Directors' qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, and
- be responsible for the maintenance and integrity of the website on which the financial statements have been published.

Report of the Directors (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Business review and financial performance

The company's vision is to be the leading community-focused water company, being leading in the eyes of the communities we serve, our people, our regulator and other stakeholders. We aim to continue to build credibility with key stakeholders by achieving good business performance. Our strategic priorities are to:

- Demonstrate great asset management
- Provide a high quality, highly visible customer experience
- Develop a team-based, collaborative organisation to support commercial performance
- Apply proven technology to drive effectiveness and efficiency
- Obtain a favourable determination from Ofwat at PR14.

To measure our operational performance, we have established 8 key performance targets. Achievement of these targets, each quarter, results in a bonus at the end of the year for all staff. Our ultimate aim is to achieve improved performance in:

- Health and safety
- Water quality
- Unplanned interruptions to supply
- Written complaints
- Leakage
- Unwanted contact
- Customer experience
- Operating cash flow

The company is a regulated business and has important obligations enforced by three regulators, being the Water Services Regulation Authority (Ofwat), the Environment Agency, and the Drinking Water Inspectorate. The business is effectively a regional monopoly and is subject to incentive-based economic regulation by Ofwat. Ofwat imposes caps on increases in customer prices and seeks to reward efficiency and high standards of customer service, whilst penalising inefficiency and poor standards of customer service.

Instruments of appointment (licences) for the provision of water supply were awarded in 1989 and continue in force for an indefinite period subject to termination on 25 years notice with more immediate revocation in certain specific circumstances (such as, for example, a failure to comply with an enforcement order made by Ofwat).

Price limits are set by Ofwat every five years through a periodic review. The last review was completed in November 2009 and imposed price limits for the period 2010/11 to 2014/15. During a periodic review, Ofwat considers the scale of the company's capital investment programme, the cost of capital, operational and environmental obligations, and operating expenditure as well as assessing the scope to improve efficiency.

Ofwat determines price limits by reference to the company's income for the previous year, adjusting for inflation (headline RPI). This determination factor is known as 'k' and can be a positive or negative percentage value. The company's regulated tariff evolves annually by RPI and 'k'. RPI for 2011/12 is 4.7% (2010/11: 0.3%) and 'k' for 2011/12 is 0.8% (2010/11: 1.4%).

Report of the Directors (continued)

The water industry is subject to substantial domestic and European Union legislation which imposes significant statutory obligations on the company concerning, among other factors, the quality of treated water supplied.

Environmental policy and proposals for legislation are the responsibility of the Secretary of State for the Environment, Food and Rural Affairs. The following bodies are responsible for applying legislative requirements to water companies:

- The Environment Agency, responsible for conserving and redistributing water resources and securing the proper use of those resources, including the licensing of water abstraction;
- The Drinking Water Inspectorate, which enforces drinking water quality standards; and
- Natural England, which is responsible for the protection of designated sites for nature conservation.

Risk and uncertainty

The company has a formal and continuous process for identifying, evaluating and managing the key risks faced. Risks, both strategic and operational, are reviewed and discussed at the Executive Management Committee (EMC). A key aim is to foster a culture in which staff throughout the business manage all risks as part of their management of day to day operations. The Audit Committee reviews the EMC's work on risk management and reports to the Board on significant risks.

The main risks and uncertainties that the company has identified are:

- maintaining supplies in the event of a third dry winter
- maintaining infrastructure serviceability
- meeting leakage targets
- maintaining high levels of water quality
- achieving the efficiency target set in the Final Determination
- loss of IT systems
- deterioration in the level of customer debt due to the economic climate
- risks associated with change and, more specifically, the impact on people from restructuring.

Each of the key risks has a 'risk owner' from the senior management team who is responsible for establishing appropriate controls to mitigate the risks as far as possible. In addition to these main risks, other identified risks are allocated to specific risk owners.

Operational performance during the year ended 31 March 2012

Key achievements during the year were:

- 99.99% mean zonal water quality compliance;
- 15% reduction in the number of burst mains, allowing our water network assets to be assessed as "stable" in terms of serviceability;
- a reduction in leakage rates of more than 10%, saving more than 20 million litres per day compared to the leakage target which Ofwat set us;
- 24% reduction in written complaints; and
- 10% reduction in unwanted telephone contact, being contact from customers which we consider to be preventable and avoidable.

A consistent set of health and safety standards are deployed across all contractors working on the capital and opex programmes. These standards are robustly monitored by project managers who conduct monthly audits which are then reported to the EMC.

Report of the Directors (continued)

We continue to play a central part in contributing to Veolia Water UK's performance as one of the top ranking companies in the last annual 'Business in the Community Top 100 Companies that Count' survey, in association with The Sunday Times. In this survey Veolia Water UK Plc retained its Platinum status which is external recognition of how we continuously improve performance for the benefit of society and the environment.

Future developments

We manage the business in the long-term interests of customers, the public and the shareholder. At the same time we are looking to improve our short-term measures of performance and to achieve the outputs expected by our regulators.

Following discussions with Ofwat during 2011, we made a formal application to Ofwat on 23 February 2012 to unify Veolia Water Central Limited, Veolia Water East Limited and Veolia Water Southeast Limited so as to operate the three areas under a single licence. The next stage of the unification process was a period of formal public consultation by Ofwat. This closed on 20 April 2012, and at the date of signing these financial statements we are awaiting Ofwat's decision.

On 6 December 2011, the company's ultimate parent company and controlling party, Veolia Environnement SA, announced its intention to sell its regulated water interests in the UK, including Veolia Water Central Limited. The sale is expected to be completed in 2012.

During the last two consecutive autumn and winter periods there has been below average rainfall in our area, resulting in very low groundwater recharge (two-thirds of our resources are groundwater). During the year our groundwater declined to the level we class as severe drought. We responded as required by our drought management plan, which sets out the measures we need to take to manage water supplies, depending on the severity of the drought conditions. We introduced a temporary use ban on 5 April 2012 along with six other water companies in the South East of England. We have stepped up publicity about drought and water efficiency measures to increase awareness amongst our customers and encourage them to use water carefully. Over the summer, we will be making greater use of surface water sources in order to alleviate the environmental effects of our groundwater abstraction on chalk rivers and streams in our area.

Financial performance for the year ended 31 March 2012

Turnover

Turnover of £253.0m (2011: £239.6m) increased by £13.4m, in line with inflation.

Operating expenditure

Operating expenditure has increased by £1.5m to £188.0m (2011: £186.5m). Depreciation has increased by £2.5m and is explained below. There has been an increase in the bad debt provision of £1.6m partly due to poorer collection rates on unmeasured customers due to the uncertain economic climate and partly reflective of the fact that last year's numbers included a reduction in provision of £1.3m following a refinement in the way that the doubtful debts provision was estimated. There has been an increase in insurance costs in relation to premiums and uninsured losses of £1.7m during the year. Efficiencies have been made, resulting in lowering costs in management and finance, customer services and operations through process improvement and better communication.

Depreciation

Depreciation has increased by £2.5m to £32.7m (2011: £30.2m). The introduction of new ultraviolet technology has resulted in some accelerated depreciation of our existing cryptosporidium barrier assets during the year.

Report of the Directors (continued)

Disposal of fixed assets

Income from disposals was £5.5m higher than in the previous period. Gains on sale of properties in the year were £4.5m whilst 2011 saw a loss of £1.0m.

Financial returns

As a result of the above changes, profit for the year ended 31 March 2012 is £35.9m (2011: £21.3m).

Cash flow

There was a net cash outflow in the year of £0.4m, a small change on the previous year when there was a net outflow of £0.1m.

Net debt increased to £463.3m at the end of March 2012 compared to £455.0m at the end of March 2011.

Capital expenditure

Expenditure for the year before contributions was £79.8m.

Whilst gross expenditure for both mains and above ground assets exceeded the regulatory target, this was largely offset by contributions from developers.

Financial instruments

The main risks arising from the company's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks.

The company finances its operations through a mixture of retained profits, bank borrowings, borrowings from its subsidiary company, Veolia Water Central Finance Plc, which in turn raises funds from the capital markets and borrowings from a group undertaking, Veolia Environnement SA, and finance leases. Treasury policies are agreed in conjunction with the parent company (including liquidity and interest rate risks). The company does not undertake speculative transactions. Interest rate exposure is managed by using a mixture of fixed and floating rate borrowings.

Liquidity is primarily managed by the utilisation of short-term borrowings from the immediate parent company.

For further details on financial instruments see note 24.

Capital finance

The £200m 22-year bond, issued by Veolia Water Central Finance Plc in 2004 at 5.875%, is partly financing our capital programme for the current five year period**.**

On 29 October 2009 Veolia Eau Compagnie Générale des Eaux issued a £201.3m loan at an interest rate of 2% above GBP LIBOR 3m rates maturing on 31 December 2024. The loan can be repaid at any time without penalty after giving the lender five business days notice. On 1 April 2010 the loan was transferred to Veolia Environnement Europe Services under the same terms. On 4 April 2012 the loan was transferred to Veolia Environnement SA under the same terms.

A £100m revolving credit facility is also available. Our financial ratios demonstrate the company's good credit quality. The balance sheet remains strong, with debt at around 61% of regulatory capital value, a considerable margin below that of some water companies.

Report of the Directors (continued)

Dividend policy

Our dividend policy is primarily based on maintaining a specific level of gearing (no more than 65%). The scale of the dividend is dependent on the level of success of the company to generate cash flows in the reported period. The policy distributes earnings equal to the amount necessary to maintain Net Debt to RCV at the targeted gearing ratio, allowing the company to have the flexibility to adjust the target gearing level from time to time as required.

The directors have declared and paid the following dividends during the year ended 31 March 2012.

Ordinary dividends

	£000
Interim – paid December 2011	32,582
	32,582

No final dividend is proposed.

Competition

We welcome greater competition and customer choice because it spurs us to improve our customer experience and service so that we retain our customers' business. As well as competition in the market, we also welcome competition for the market. Our parent company, Veolia Water UK has followed its strategy to grow its business and become the leading water company in the UK by competing for operating contracts. We have contributed to this strategy by focusing on our customers, innovating, improving our performance so that we become a reference for Veolia Water, and when possible making our expertise available on a cost-allocated basis. Sister companies in the Veolia Water group have also acted to increase competition as the operators of the MOD Tidworth inset appointment and as Water Supply Licence holders.

Employees

We consult and inform employees on all aspects of business performance through formal and informal consultation bodies, regular team meetings and the intranet. We constantly discuss with our Trade Unions ways to enhance and improve our communications and consultation channels.

The company gives full consideration to applications from disabled persons where the candidate's particular aptitudes and abilities are consistent with the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Employees who become disabled whilst employed by the company are actively encouraged to find appropriate employment within the business.

Several initiatives have also been introduced with the aim of improving the health and well-being of our employees.

Research and development activities

The development and application of new techniques and technology is an important part of the company's activities.

The company participates in the Veolia Water UK group research programme. The company also continues to participate in a research programme operated by UK Water Industry Research Limited.

Veolia Water Central Limited

Report of the Directors (continued)

Charitable and political contributions

On 1 April 2010 we launched a Community Investment Fund, where community groups and charities within our water supply area can apply for a grant for specific projects.

As a responsible local business which cares about the communities we serve and looks after the environment around us, we have always supported environmental projects and voluntary/charitable organisations within our community. We know that donations both large and small can make a real and lasting difference to the organisations which receive them.

The charitable contributions made by the company during the year were £605,659 (2011: £590,281), largely to water-related and local organisations which aim to:

- improve opportunities and create worthwhile experiences for the disadvantaged
- improve the quality of life of senior citizens and the vulnerable within our community
- educate young people about water and sustainability issues
- assist customers who have serious financial difficulties in paying their water bills.

During the year £545,000 has been paid to the Veolia Water Trust. This trust seeks to assist customers whom it deems need help with their water debts. The company has committed to donate £2.5m to the Trust in the five years to March 2014.

The company has a policy of not making political contributions.

Creditor payment policy

Our policy is to negotiate the terms of payment with suppliers when agreeing terms of business and to pay in accordance with contractual and other legal obligations. The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services. The average number of creditor days is 17 (2011: 37).

Post balance sheet events

On 4 April 2012 the loan originally issued by Veolia Eau Compagnie Générale des Eaux and transferred to Veolia Environnement Europe Services in April 2010 was transferred to Veolia Environnement SA under the same terms.

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with Section 485 of the Companies Act 2006, a resolution to re-appoint the auditors, Ernst & Young LLP, will be proposed at the annual general meeting.

By order of the Board

T J W Monod
Company Secretary
8 June 2012

Veolia Water Central Limited

Corporate Governance Report

Introduction

As required by its Instrument of Appointment, the company is governed having regard to the principles of good governance set out in the UK Corporate Governance Code (June 2010). The following is a summary of how the company applies those principles in practice in the context of its status as a wholly owned subsidiary.

A Leadership

The Board is led by the Chairman, Olivier Bret, who is the Chief Executive Officer of the company's parent, Veolia Water UK Plc and succeeded Frédéric Devos in January 2012. The roles of Chairman and Managing Director are separated and clearly defined although not set out in writing. The Chairman is supported by the senior independent non-executive director, Dr. Neil Summerton, who provides a sounding board for the Chairman and is in frequent touch with the other non-executive directors as appropriate.

The Board's role is to lead and control the company and to set corporate strategy, objectives and major plans bearing on the success of the business. The Board is responsible for ensuring that the company has competent, prudent and effective executive management and that all necessary management systems and processes are in place and are working effectively. It also brings judgement to bear on issues of performance, resources and standards of conduct.

The Board meets on average eight times per year and reserves to itself the approval of certain key matters such as annual capital and operating budgets, financial statements, declaration of interim dividends and key regulatory submissions, reports and plans. It also approves key policies relating to safety, health and the environment, corporate responsibility and ethical conduct, risk management and business continuity crisis planning.

The directors bring independent judgement to bear on all matters including issues of strategy, performance, resources and standards of conduct. The independent non-executive directors meet and maintain regular contact between Board meetings as appropriate. They have monthly teleconferences with the Managing Director and Company Secretary to be kept informed of and to discuss current business.

The Board has established three standing committees: the Audit Committee, Executive Management Committee (EMC) and Remuneration and Employment Committee. Each committee operates within written and agreed terms of reference approved by the Board and is able to take independent advice on any matters being considered. The terms of reference are reviewed periodically. Minutes of the committee meetings are circulated promptly to all Board members. See page 6 for the membership of each committee.

The EMC comprises the Managing Director and his management team together with certain shareholder representatives. Membership is shown on page 6. The committee meets regularly (normally monthly) and is responsible to the Board for managing the business from day to day in an efficient, economical and effective manner. It is responsible for implementing Board decisions and for those matters delegated to it by the Board under defined terms of reference.

Corporate Governance Report (continued)

The table below sets out attendance at meetings for year ended 31 March 2012.

	Board	Audit Committee	Executive Management Committee
Number of meetings in the year	**10****	**4**	**12**
Richard Bienfait	10	-	12
Olivier Bret	4*	-	1*
Michael Butcher	-	3	-
Baroness Buscombe	10	4	-
Frédéric Devos	6*	-	3*
Philippe Guitard	1	-	-
Olivier Grunberg	3	-	-
Dr. Neil Summerton	10	4	-
Fiona Woolf	7	4	-

"-" denotes non-membership of that committee.
"*" denotes not a director throughout the reporting year.
"**" in addition to the usual quarterly Board Meetings there were additional meetings to discuss such items as land sales and the Principal Statement.

B Effectiveness

Throughout the reporting year the Board comprised one executive and six non-executive directors.

The Board considers that Baroness Buscombe, Dr. Neil Summerton and Fiona Woolf are independent. They are of sufficient calibre and experience for their views to carry significant weight in Board decisions. While Dr. Summerton has been a member of the Board for over 10 years, he has never been a shareholder in the company or its parents and has no other paid position with Veolia except being an independent non-executive director of one of the sister regulated companies. He maintains his independence as a commentator and consultant on water matters. The Board is satisfied that Dr. Summerton maintains independent critical scrutiny of the company's policies and management; this is all the more effective because of his knowledge of the company and the background to many issues.

Appointments to the Board reflect the decision of the shareholder as the company is a wholly owned subsidiary. When requested by the shareholder, the Remuneration and Employment Committee advises the Board on the appointment of directors. There is no nomination committee. Certain Board members are also directors of other group companies. This enables them to bring wider experience to discussions at meetings and on other occasions. All directors declare their position when as individuals they have a possible conflict of interest. A procedure has also been agreed to enable directors to obtain access to independent professional advice where they think it necessary to perform their duties.

Directors are expected to allocate sufficient time to the company to discharge their responsibilities effectively. In addition to formal Board and committee meetings, directors are encouraged to participate in informal briefings from management. The expected time commitment from directors is clear although this is not formally recorded in a letter of appointment.

Independent non-executive directors receive a formal tailored induction on appointment to the Board. The company makes available to directors resources for developing and updating their knowledge and capabilities and provides access to its operations and employees. Training and development needs are reviewed from time to time.

The Company Secretary is responsible for ensuring that the Board and its committees receive regular written reports from management of sufficient quality to enable them to discharge their duties. The Company Secretary also advises the Board on governance matters and facilitates information flows

Corporate Governance Report (continued)

between management and the directors. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The performance of the Board and its committees is evaluated both informally and from time to time, formally by the Board and the company's shareholder to ensure that the company retains the right balance of skills to provide leadership and control.

Directors are required to seek re-election in accordance with the requirements of the company's articles of association. Baroness Buscombe, Frédéric Devos, Olivier Grunberg, Philip Guitard and Fiona Woolf were each reappointed as directors at the Annual General Meeting held in September 2011.

C Accountability

The Board is responsible for presenting a balanced and understandable assessment of the company's position and prospects in the company's financial statements.

Internal control

The Board has overall responsibility for the company's systems of internal control and for reviewing the effectiveness of these systems, including financial, operational and compliance controls and risk management, and is advised by its Audit Committee on these matters. The systems are designed to manage the risk of failure to achieve business objectives (though it cannot be completely eliminated), and provides assurance against material misstatement or loss. The company contributes to the compliance of Veolia Environnement SA with the US Sarbanes-Oxley Act, as is necessary under the terms of Veolia Environnement's listing on the New York Stock Exchange.

The Board approves the company's annual budget and annual capital expenditure budget and regularly reviews actual performance. There is a defined organisational structure with appropriate delegation of authorities to line management and all major transactions are reviewed and approved by the Board.

A whistle blowing procedure is in place that supports the open culture that the company promotes in its dealings with members of staff and all people with whom it engages in its business activities. The procedure encourages members of staff to communicate their concerns about malpractice or misconduct in an open and honest manner without fear of any form of detriment to their employment or career prospects.

Risk

A formal, continuous process for identifying, evaluating and managing the significant risks faced by the company has been in place throughout the year under review and up to the date of approval of the Annual Report and Financial Statements.

The EMC considers at each meeting the management of both risks already identified and emerging and expected risks, in order to integrate fully the consideration of risk into the overall management of the business. The EMC is advised by specialists as necessary. The Audit Committee considers reports from the EMC on risk and reports to the Board as necessary. The independent non-executive directors, the Managing Director and the Company Secretary have discussions on a monthly basis, where risks are tabled as necessary.

Audit Committee

The Audit Committee comprises three independent non-executive directors and a representative of the shareholder and meets at least four times a year. The Board is satisfied that collectively the members have the appropriate knowledge and experience to be expected of an Audit Committee of a company of this type. The committee is chaired by Dr. Neil Summerton. The Managing Director, Chief Financial Officer, Head of Internal Audit, external auditors and other parties are invited to attend meetings as appropriate.

Corporate Governance Report (continued)

The committee is responsible to the Board for reviewing the effectiveness of the systems of internal control that safeguard the shareholder's investment and the company's assets. The review covers all controls, including financial, operational and compliance controls and risk policy and management.

The committee also reviews the company's statutory annual financial statements and regulatory accounts before submission to the Board to ensure that the report and accounts meet the obligations of the directors and give a true and fair representation of the company's financial position.

The committee meets with the company's reporter and external auditors and reviews the information to be provided in the annual performance report to Ofwat before submission to the Board to ensure that the information meets Ofwat's reporting requirements.

Discussions are held with the external auditors before audits begin, in the course of their work and when the work is completed, to establish the nature and scope of the audit work, its cost effectiveness, the auditors' independence and objectivity and the results of audit work.

The committee keeps under review the level of audit fees, the appointment of the external auditors, and the nature and extent of other services provided by them, seeking to balance the maintenance of objectivity with value for money. It also approves in advance the activities and resources of internal audit and its effectiveness.

The committee is responsible for drawing the attention of the Board to, and advising on, any matters which should appropriately be decided by the Board as a whole. It also considers and advises the Board on the policies and procedures for controlling and managing risks throughout the company and supervises actions to define, assess, control and limit risk.

The committee each year evaluates its performance by means of a questionnaire covering the range of its responsibilities and procedures.

D Remuneration

The Remuneration and Employment Committee operates under defined terms of reference and, when requested by the shareholder, advises the Board on the appointment of Board members, the level of fees to be paid to non-executive directors and the remuneration and terms and conditions of senior executives of the company. The committee comprises the Chairman and one independent non-executive director. This balance reflects the company's status as a wholly owned subsidiary. The committee did not meet during the reporting year.

E Relations with Shareholders

The principles of the UK Corporate Governance Code relating to relationships with institutional shareholders and private investors do not apply as the company is a wholly owned subsidiary. As a term of its Instrument of Appointment, however, the company acts as though the UK Corporate Governance Code does apply to it. Representatives of the only shareholder are on the Board which ensures effective communication and dialogue.

By order of the Board

T J W Monod
Company Secretary
8 June 2012

Veolia Water Central Limited

Remuneration Report

Introduction

The Remuneration and Employment Committee provides advice and guidance to the Board on the remuneration of executive directors and on the terms and conditions of senior executives. The committee seeks to operate in accordance with best practice and appropriate guidelines and members of the committee are therefore excluded from discussions regarding their own remuneration and conditions of employment.

The committee is as shown on page 6 and meets as and when required. The committee meets to review the performance over the preceding twelve months and to set an appropriate remuneration framework for the forthcoming twelve months. The company believes that the composition of the committee and its terms of reference ensure sensitivity to both the shareholder's interest and also the wider interest in ensuring that remuneration packages are sufficient to attract, motivate and retain executives whilst not exceeding what is required for this purpose.

Non-executive directors

The current non-executive directors fall into two groups.

Group A
Baroness Buscombe
Dr N W Summerton
F Woolf

Group B
O Grunberg
P Guitard
O Bret

F Devos was a Group B non-executive director but resigned during the course of the year.

The directors in Group A are considered to be independent. They are appointed by resolution of the Board and there is no further written contract relative to their services. They receive a fee in respect of their services which is not related to company performance and they are not in receipt of share options or long-term incentive plans. Non-executive directors fees are set taking into account the market rate for non-executive directors, with particular reference to the UK water industry, and to the general level of remuneration increases within the company.

There are no specific termination payments for non-executive directors in Group A. They may be removed from the Board by resolution of the shareholder.

The independent non-executive directors do not have service contracts.

The directors in Group B are appointed to represent the shareholder. They can be removed from the Board by the shareholder.

Executive directors

R Bienfait*: Managing Director

Notice periods are as follows:
From the executive to the company – 6 months
From the company to the executive – 12 months

* Notice period within Veolia Water UK Plc contract but applicable to Veolia Water Central Limited service. On 1 June 2012 the Managing Director's employment was transferred to Veolia Water Central Limited and the same notice periods are applicable.

Remuneration Report (continued)

The salary of the Managing Director was set and paid by Veolia Water UK Plc and subsequently recharged to Veolia Water Central Limited, on a time proportional basis. The salary of the other senior executives was set annually taking into account:

- The performance of the individual executive
- Progression within the executive's current position
- The general level of remuneration increases within the Veolia group.

The company also provides private health care and a fully expensed company car. The remuneration committee reviews the wider benefit package of the Managing Director and other senior executives to ensure that they remain in line with market norms and are sufficient to retain and motivate high quality executives.

The Managing Director and senior executives are entitled to a performance-related discretionary bonus. For the Managing Director the maximum payable is 50% of salary and for senior executives the maximum is 30% of salary. Bonus awards are dependent on the success of the company and are determined by reference to three components:

- Achievement of financial performance (up to 50% of total bonus)
- Achievement of operational performance (up to 25% of total bonus)
- Achievement of personal objectives (up to 25% of total bonus).

The scheme is designed to provide a direct link between executive and company performance and bonus award, although payment remains discretionary. There was no long-term incentive plan. For the year ended 31 December 2011 bonuses were paid to the Managing Director and a number of senior executives.

Other employees

The company operates a bonus scheme for all employees with reference to eight performance measures. This ensures there is a common focus across the business.

The eight measures used for the 2011 bonus were:

- Health and safety, measured by reportable accidents
- Water quality, measured by number of water quality compliance failures
- Unplanned interruptions, measured by the number of equivalent properties experiencing an unplanned interruption of more than 6 hours
- Written complaints, measured by the number of written complaints
- Leakage, as measured by million litres per day
- Unwanted contact, measured by the number of unwanted contact from customers
- Customer Experience, measured by Net Promoter Score
- Financial performance, measured by operating cash flow.

Directors' emoluments

Directors' emoluments for the year were £243k (2011: £252k). Full details are provided within note 5 on page 34.

Veolia Water Central Limited

Remuneration Report (continued)

Directors' interests

There are no disclosable interests under the Companies Act 2006.
Shares held in Veolia Environnement SA are not disclosed.

By order of the Board

T J W Monod
Company Secretary
8 June 2012

Independent Auditor's report to the members of Veolia Water Central Limited

We have audited the financial statements of Veolia Water Central Limited for the year ended 31 March 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical profits and losses, the balance sheet, the cash flow statement, and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on pages 7 and 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material mis-statements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements and the information given in the Corporate Governance Report set out on pages 14 to 17 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Independent Auditor's report to the members of Veolia Water Central Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
13 June 2012

Veolia Water Central Limited

Profit and loss account
for the year ended 31 March 2012
(Registered Number 2546950)

	Note	2012 £000	2011 £000
Turnover	2	**253,040**	239,647
Cost of sales		**(155,294)**	(154,277)
Gross profit		**97,746**	85,370
Customer services and administrative expenses		**(40,860)**	(40,209)
Other operating income	3	**8,148**	7,942
Operating profit	4	**65,034**	53,103
Profit/(loss) on disposal of fixed assets		**4,474**	(976)
Profit on ordinary activities before interest and taxation		**69,508**	52,127
Interest receivable	6	**19**	129
Interest payable and finance charges	7	**(19,940)**	(19,871)
Other finance income/(charges)	8	**(578)**	(1,978)
Profit on ordinary activities before taxation		**49,009**	30,407
Tax on profit on ordinary activities	9	**(13,120)**	(9,155)
Profit on ordinary activities after taxation and for the financial year	19	**35,889**	21,252

All profits of the company are from continuing operations.

The notes on pages 29 to 52 form part of these financial statements.

Veolia Water Central Limited

Statement of total recognised gains and losses for the year ended 31 March 2012

(Registered Number 2546950)

	Note	2012 £000	2011 £000
Profit for the financial year	20	**35,889**	21,252
Actuarial gain recognised in the pension scheme	20	**4,741**	13,675
Deferred tax movement relating to actuarial gain	20	**(1,138)**	(4,872)
Total recognised gains for the year	20	**39,492**	30,055

The notes on pages 29 to 52 form part of these financial statements.

Veolia Water Central Limited

Note of historical cost profits and losses for the year ended 31 March 2012

(Registered Number 2546950)

	Note	2012 £000	2011 £000
Reported profit on ordinary activities before taxation		**49,009**	30,407
Realisation of property revaluation gains of previous years	19	**1,793**	1,780
Historical cost profit on ordinary activities before taxation		**50,802**	32,187
Historical cost profit for the year retained after taxation		**37,682**	23,032

The notes on pages 29 to 52 form part of these financial statements.

Veolia Water Central Limited

Balance sheet
as at 31 March 2012
(Registered Number 2546950)

	Note	2012 £000	2011 £000
Fixed assets			
Intangible assets	11	**6,678**	6,678
Tangible assets	11	**906,544**	913,847
Investment	12	**50**	50
		913,272	920,575
Current assets			
Stocks	13	**952**	851
Debtors	14	**62,207**	54,042
Cash at bank and in hand		**713**	1,439
		63,872	56,332
Creditors - amounts falling due within one year	15	**(142,341)**	(143,486)
Net current liabilities		**(78,469)**	(87,154)
Total assets less current liabilities		**834,803**	833,421
Creditors - amounts falling due after more than one year	16	**(421,363)**	(425,324)
Provisions for liabilities	17	**(47,705)**	(42,653)
Net assets excluding pension liability		**365,735**	365,444
Net pension liability	23	**(14,770)**	(21,389)
Net assets including pension liability		**350,965**	344,055
Capital and reserves			
Called up share capital	18	**26,506**	26,506
Other reserves	19	**125,168**	126,961
Profit and loss account	19	**199,291**	190,588
Shareholder's funds	20	**350,965**	344,055

The notes on pages 29 to 52 form part of these financial statements. The statutory financial statements on pages 23 to 52 have been approved by the Board of Directors and were signed on 8 June 2012 on its behalf by:

Olivier Bret
Chairman

Richard Bienfait
Managing Director

Veolia Water Central Limited

Cash flow statement
for the year ended 31 March 2012
(Registered Number 2546950)

	Note	2012 £000	2011 £000
Net cash inflow from operating activities	(a)	**120,646**	129,857
Returns on investments and servicing of finance			
Interest received		**17**	126
Interest paid		**(13,055)**	(19,480)
Interest element of finance lease payments		**(271)**	(400)
Net cash outflow from returns on investments and servicing of finance		**(13,309)**	(19,754)
Taxation		**(8,736)**	(8,734)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(84,258)**	(71,878)
Capital contributions		**6,929**	6,575
Proceeds on disposal of tangible fixed assets		**9,805**	5,363
Net cash outflow from capital expenditure and financial investment		**(67,524)**	(59,940)
Equity dividends paid to shareholders		**(32,582)**	(34,882)
Net cash (outflow)/inflow before financing		**(1,505)**	6,547
Financing			
Capital element of finance lease payments		**(1,484)**	(1,384)
Loan from subsidiary		**-**	134
Deposit with parent company		**(10,000)**	6,239
Loan from other group undertaking		**11,903**	(10,733)
Financing of assets operated by other parties		**700**	(856)
Decrease in other long-term financial liabilities – repurchase of debentures		**-**	(2)
Net cash inflow/(outflow) from financing		**1,119**	(6,602)
Decrease in net cash	(b)/(c)	**(386)**	(55)

The notes on pages 29 to 52 form part of the financial statements.

Veolia Water Central Limited

Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2012 £000	2011 £000
Operating profit	**65,034**	53,103
Depreciation of tangible fixed assets	**74,874**	70,700
Amortisation of deferred credit	**(302)**	(329)
Increase in stocks	**(101)**	(255)
Increase in debtors	**(6,067)**	(1,057)
Increase in provisions	**1,204**	510
(Decrease)/increase in creditors	**(8,690)**	12,046
Decrease in pension liability	**(5,306)**	(4,861)
Net cash inflow from operating activities	**120,646**	129,857

(b) Reconciliation of net cash flow to movement in net debt

	2012 £000	2011 £000
Decrease in cash in the year	**(386)**	(55)
Cash (inflow)/outflow from increase in debt and finance leasing	**(1,119)**	6,602
Non cash inflow from increase in debt and finance leasing	**(6,769)**	-
Movement in net debt in the year	**(8,274)**	6,547
Net debt at the beginning of the year	**(455,007)**	(461,554)
Net debt at the end of the year	**(463,281)**	(455,007)

(c) Analysis of net debt

	At 1 April 2011 £000	Cash Flow £000	Non Cash Flow £000	At 31 March 2012 £000
Net cash				
Bank	1,099	(386)	-	**713**
	1,099	(386)	-	**713**
Debt				
Loan from subsidiary financed by bond issue	(196,575)	-	(153)	**(196,728)**
Deposit with parent company	-	2,097	-	**2,097**
Loan from other group undertakings	(207,517)	10,000	(6,616)	**(204,133)**
Loan from parent company	(32,000)	(14,000)	-	**(46,000)**
Debentures	(32)	-	-	**(32)**
Finance leases (including sale and leaseback)	(3,075)	1,484	-	**(1,591)**
Financing of assets used by the company and operated by other parties	(16,907)	(700)	-	**(17,607)**
	(456,106)	(1,119)	(6,769)	**(463,994)**
Net debt	(455,007)	(1,505)	(6,769)	**(463,281)**

Notes to the financial statements for the year ended 31 March 2012

1 Statement of accounting policies

Basis of preparation

These financial statements have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets described below, and in accordance with the Large and Medium-sized Companies and Groups Regulations 2008 (SI 2008/410), which forms part of the Companies Act 2006, and applicable UK accounting standards, except for the treatment of certain grants and contributions, described below, and the non-amortisation of goodwill.

The financial statements of Veolia Water Central Limited and its wholly owned subsidiary, Veolia Water Central Finance Plc, are not presented in consolidated format as Veolia Water Central Limited is itself a wholly owned subsidiary of Veolia Water Capital Funds Limited, which is the parent undertaking of the smallest group to consolidate the statutory financial statements. The company has not prepared group accounts as allowed under Section 400 of the Companies Act 2006.

No transactions have been recognised in respect of share based payments in the years ended 31 March 2012 and 31 March 2011 because the amounts were not material.

Use of estimates

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

Revenue recognition

Revenue is recognised in accordance with FRS 5: 'Reporting the substance of transactions' in the period in which it is earned. The company does not recognise revenue where payment is received in advance. However, payments made in the previous period in respect of the current period will be recorded as revenue in the current period. In accordance with Application Note G of FRS 5, the company does not recognise revenue where historic evidence indicates that the company will probably never be able to collect the revenue billed. Where relevant, this includes an estimate of the sales value of water supplied to customers between the date of the last meter reading and the period end, exclusive of value added tax.

Bad debt provisioning

The bad debt provision is calculated by applying a range of different percentages to debt of different ages. These percentages also vary between categories of debt. Higher percentages are applied to those categories of debt which are considered to be of greater risk and also to debt of greater age. The value of the debt provision is sensitive to the specific percentages applied.

Financial instruments

Income and expenditure arising on financial instruments is recognised on an accruals basis and credited or charged to the profit and loss in the financial period in which it arises.

Research and development

The costs of research and development are written off in the year in which they are incurred.

Notes to the financial statements for the year ended 31 March 2012 (continued)

Current taxation

Current taxation is UK corporation tax based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Taxable profit differs from the net profit as reported in the profit and loss account as it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred taxation

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

In accordance with FRS 19: ‘Deferred tax’, deferred tax is not provided on timing differences arising from:

(a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date;

(b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets; and

(c) fair value adjustment gains to fixed assets and stock to uplift prices to those ruling when an acquisition is made.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date.

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses in due course.

The company has adopted a policy of discounting deferred tax assets and liabilities to reflect the time value of money. Deferred tax assets and liabilities are discounted using a discount rate equivalent to the post tax yield that could be obtained at the balance sheet date on government bonds with similar maturity dates and currencies. The increase or decrease in the discount deducted in arriving at the deferred tax balance is included in the deferred tax charge or credit in the profit and loss account.

Pension costs

The company operates a pension scheme providing benefits based on final pensionable salary. The scheme closed to new members in April 1996 and September 2004. The assets of the scheme are held separately from those of the company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term to the liability. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The company also has an unfunded obligation to pay pensions to former non-executive directors. A provision in respect of the obligation is included within the net pension liability.

Notes to the financial statements for the year ended 31 March 2012 (continued)

Goodwill and amortisation

Positive goodwill is the excess of the cost of the acquired entity over the aggregate of the fair values of that entity's identifiable assets and liabilities.

Goodwill relating to the acquisition of North Surrey Water Limited in the year ended 31 March 2001 amounting to £6.7m has been capitalised. The directors consider that this goodwill has an indefinite life and accordingly is not amortised but is subject to annual review for impairment. In estimating the useful economic life of goodwill arising, account has been taken of the nature of the business acquired and the stability of the industry. This is not in accordance with Large and Medium-sized Companies and Groups Regulations 2008 (SI 2008/410) which forms part of the Companies Act 2006, which requires that all goodwill be amortised. The directors consider that this would not give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. The effect on the accounts of this departure amounts to £334,000 per annum over 20 years. Any impairment charge is included within operating profits.

Tangible fixed assets and depreciation

FRS 15: 'Tangible fixed assets' requires fixed assets which are carried at revalued amounts to be shown at their current value at the balance sheet date. To achieve this, all tangible fixed assets are subject to a full valuation every five years with an interim valuation carried out in the third year of this cycle.

Tangible fixed assets comprise:

- Infrastructure assets – mains and associated underground pipe-work.
- Other assets – land and buildings, operational structures, fixed plant, vehicles and mobile plant.

Infrastructure assets (being mains and associated underground pipe-work) comprise a network of systems. Expenditure on infrastructure assets, including renewals, is treated as an addition and included at cost after deducting grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the company's independently certified asset management plan. Disposals of infrastructure assets are calculated based on the estimated lives of the assets before they are replaced.

Depreciation is provided on all other fixed assets except freehold land and is calculated to write off their cost over their estimated useful lives on a straight-line basis. Assets acquired under finance leases are depreciated over the shorter of their useful life or the lease term. The performance of assets is continually monitored and where impairment is identified, fixed assets are written down to the recoverable amount. Tangible fixed assets are reviewed for impairment at the end of each reporting period when the estimated remaining useful economic life of the assets exceeds 50 years. Information on the condition of assets is also provided to the Regulator every five years as part of the price review mechanism.

The estimated useful lives of these assets are:

Buildings		40 - 60 years
Operational structures		15 - 100 years
Fixed plant	- Short life	3 - 10 years
	- Other	10 - 30 years
Vehicles and mobile plant		3 - 10 years

Land is not depreciated.

Capital contributions

Infrastructure charges received in respect of connections to the mains network are allocated to fixed assets, surface and infrastructure, in accordance with the basis on which the charges are calculated.

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets. This is not in accordance with Large and Medium-sized Companies and Groups Regulations 2008 (SI 2008/410) which forms part of the Companies Act 2006, which requires tangible fixed assets to be shown at cost, and hence grants and contributions are accounted for as deferred income. This departure from the requirements of the Companies Act 2006 is, in the opinion of the directors, necessary for the financial statements to show a true and fair view as, while a provision is made for depreciation of infrastructure assets, these assets have indefinite economic lives and therefore no basis exists on which to recognise grants and contributions in the profit and loss account. The effect of this treatment on the book value of tangible fixed assets is disclosed in Note 11.

Leased assets

Assets financed by leasing are included in tangible fixed assets and the net obligation to pay future rentals is included within creditors. Instalments are apportioned between the finance element, which is charged to the profit and loss account as interest, and the capital element, which reduces the outstanding obligation for future instalments.

Rentals paid under an operating lease are charged against profits on a straight-line basis over the life of the lease.

Fixed asset investments

Fixed asset investments are stated at cost less any provisions in respect of permanent diminution in value.

Stocks and work in progress

Stocks are valued at the lower of cost or net realisable value after allowance for obsolete and slow moving items. In accordance with established practice in the water industry no value has been placed upon the water in reservoirs, mains or in the course of treatment. Work in progress for chargeable services is valued at cost.

Provision for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Notes to the financial statements for the year ended 31 March 2012 (continued)

2 Turnover

Turnover represents income from the supply of water and other chargeable services exclusive of VAT arising wholly within the United Kingdom.

	2012 £000	2011 £000
Turnover by class is analysed below:		
Unmeasured supplies	**131,237**	124,469
Measured supplies	**121,477**	114,853
Chargeable services	**326**	325
	253,040	239,647

3 Other operating income

	2012 £000	2011 £000
Commission, rentals & other non-appointed income	**8,148**	7,942

4 Operating profit

	2012 £000	2011 £000
Operating profit is stated after charging/(crediting):		
Purchase of bulk water and water supplied under statutory entitlement	**1,443**	1,560
Water abstraction	**5,179**	4,881
Business rates	**12,245**	11,788
Chargeable services direct expenditure	**775**	750
Depreciation of infrastructure assets	**42,134**	40,511
Depreciation of tangible fixed assets - owned	**31,521**	29,239
Depreciation of tangible fixed assets - leased	**1,219**	950
Research and development	**253**	222
Auditor’s remuneration - audit	**78**	78
Auditor’s remuneration - regulatory returns and non-statutory audit	**116**	116
Hire of equipment	**609**	780
Operating lease rentals - land and buildings	**1,547**	1,547
Operating lease rentals - other	**244**	98
Amortisation of deferred credit	**(302)**	(329)

These items are included under cost of sales, customer service and administrative expenses in the profit and loss account.

Veolia Water Central Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

5 Employees and directors

	2012 £000	2011 £000
Staff costs (including directors) consist of:		
Wages and salaries	**22,923**	23,285
Social security costs	**2,120**	1,985
Defined benefit pension costs (note 23)	**3,531**	3,819
Defined contribution pension costs	**426**	344
Other pension costs	**434**	454
Net settlement credit (note 23)	**-**	(363)
	29,434	29,524

	2012 Number	2011 Number
The average number of employees (including directors) during the year was as follows:		
Operations	**333**	354
Customer service	**332**	343
Administration	**54**	51
	719	748

Directors' emoluments

	2012 Salary and fees £000	2012 Benefits in kind £000	2012 Bonus £000	2012 Total £000	2011 Total £000
Non-executives					
D W Alexander	**-**	**-**	**-**	**-**	19
J C Banon	**-**	**-**	**-**	**-**	25
Baroness Buscombe	**27**	**-**	**-**	**27**	25
F Devos	**22**	**-**	**86**	**108**	25
O Grunberg	**27**	**-**	**-**	**27**	25
P Guitard	**27**	**-**	**-**	**27**	25
Dr N W Summerton	**27**	**-**	**-**	**27**	25
F Woolf	**27**	**-**	**-**	**27**	25
Executives					
J A Bishop	**-**	**-**	**-**	**-**	25
R Brimble	**-**	**-**	**-**	**-**	33
	157	**-**	**86**	**243**	252

No directors exercised share options during the year.

The emoluments of R Bienfait were paid during the year by Veolia Water UK Plc, the company's intermediate parent undertaking, which has recharged an amount of £287,000 (2011: £225,000) to the company.

There were no directors accruing retirement benefits under the money purchase scheme during the year (2011:1). Therefore there were nil contributions paid to money pension schemes (2011: £6,000).

Veolia Water Central Limited

Notes to the financial statements
for the year ended 31 March 2012 (continued)

6 Interest receivable

	2012 £000	2011 £000
Other interest	**19**	129

7 Interest payable and finance charges

	2012 £000	2011 £000
Interest payable to other group undertaking	**6,618**	6,427
Interest payable to parent company	**346**	380
Financing costs of assets used by the company and operated by other parties	**931**	743
Finance lease charges	**242**	353
Debenture interest	**1**	1
Interest payable to subsidiary in respect of bond issue	**11,904**	11,884
Other interest	**(102)**	83
	19,940	19,871

8 Other finance income/(charges)

	2012 £000	2011 £000
Expected return on pension scheme	**12,752**	12,307
Interest on pension scheme liabilities	**(13,330)**	(14,285)
	(578)	(1,978)

Veolia Water Central Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

9 Tax on profit on ordinary activities

	2012 £000	2011 £000
Current taxation		
Current tax on profit of the year	**10,991**	8,654
Adjustment in respect of prior years	**(3,431)**	(900)
Current taxation	**7,560**	7,754
Deferred taxation		
Origination and reversal of timing differences – current year	**3,109**	1,842
Adjustment in respect of prior years	**651**	553
Decrease in discounting	**8,165**	6,126
Impact of change in tax rate	**(6,365)**	(7,120)
Deferred tax charge for the year	**5,560**	1,401
Tax on profit on ordinary activities	**13,120**	9,155
Current taxation reconciliation		
Profit on ordinary activities before taxation	**49,009**	30,407
Theoretical tax at UK corporation tax rate of 26% (2011: 28%)	**12,742**	8,514
Effects of:		
Adjustment to tax in respect of prior years	**(3,431)**	(900)
Accelerated capital allowances	**357**	(343)
Other short-term timing differences	**(436)**	(691)
Other timing differences	**(1,229)**	(808)
Permanent differences	**(443)**	1,982
Actual current taxation charge	**7,560**	7,754

Tax on recognised gains and losses not included in the profit and loss account (note 19):

	2012 £000	2011 £000
Other deferred tax movements relating to pension schemes	**1,138**	4,872

Factors that may affect future tax charges:

A change in the UK main corporation rate from 28% to 27% was substantively enacted on 20 July 2010 to become effective from 1 April 2011. Further reductions in the UK corporation tax rate were announced in the March 2011 Budget and substantively enacted on 29 March 2011, including an additional decrease in the main corporation tax rate to 26% effective 1 April 2011.

The further reductions announced in the March 2011 Budget, and updated in the March 2012 Budget, are expected to be enacted separately each year with the intention of reducing the rate by 1% per annum to 22% effective from 1 April 2014. The first of these reductions to 25% and 24%, effective from 1 April 2012, were substantively enacted on 5 July 2011 and 26 March 2012 respectively, and as a result the relevant deferred tax balances at 31 March 2012 have been recognised at 24%. Future changes in the main corporation tax rate from 24% to 22% had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

Changes to the UK capital allowance regime will also impact the capital allowances the company can claim. Based on current capital investment plans the company expects to continue to be able to claim capital allowances in excess of depreciation in future years to similar levels to the current year.

10 Dividends on equity shares

	2012 £000	2011 £000
Ordinary:		
First interim paid of 12.29p per share (2011: 5.81p)	**32,582**	15,400
Second interim paid of 0.00p per share (2011: 7.35p)	**-**	19,482
	32,582	34,882

11 Fixed assets

Intangible assets

	Positive goodwill £000
Cost at 1 April 2011 and 31 March 2012	6,678
Amortisation at 1 April 2011 and 31 March 2012	-
Net book value at 31 March 2011 and 31 March 2012	**6,678**

Notes to the financial statements for the year ended 31 March 2012 (continued)

Tangible assets

	Land, buildings and operational structures £000	Mains and other infrastructure assets £000	Fixed plant £000	Vehicles and mobile plant £000	Assets in the course of construction £000	Total £000
Cost or valuation						
At 1 April 2011	236,155	896,557	505,408	43,640	20,477	1,702,237
Additions at cost	529	38,489	11,909	2,563	26,342	79,832
Transfers to complete	177	11,971	938	117	(13,203)	-
Capital contributions	-	(6,929)	-	-	-	(6,929)
Disposals	(9,687)	(460)	-	(2,915)	-	(13,062)
At 31 March 2012	**227,174**	**939,628**	**518,255**	**43,405**	**33,616**	**1,762,078**
Depreciation						
At 1 April 2011	57,600	388,145	306,823	35,822	-	788,390
Charge for the year	4,204	42,134	25,635	2,901	-	74,874
Disposals	(4,355)	(460)	-	(2,915)	-	(7,730)
At 31 March 2012	**57,449**	**429,819**	**332,458**	**35,808**	**-**	**855,534**
Net book value						
At 31 March 2012	**169,725**	**509,809**	**185,797**	**7,597**	**33,616**	**906,544**
At 31 March 2011	178,555	508,412	198,585	7,818	20,477	913,847

Finance leases have been arranged for assets included above at 31 March 2012 and 31 March 2011 as follows:

	Land, buildings and operational structures £000	Mains and other infrastructure assets £000	Fixed plant £000	Vehicles and mobile plant £000	Assets in the course of construction £000	Total £000
31 March 2012						
Cost	**8,419**	**23,165**	**63,874**	**4,834**	**-**	**100,292**
Depreciation	**(7,684)**	**(10,793)**	**(62,833)**	**(4,834)**	**-**	**(86,144)**
Net book value	**735**	**12,372**	**1,041**	**-**	**-**	**14,148**
31 March 2011						
Cost	8,419	23,165	63,874	4,834	-	100,292
Depreciation	(7,469)	(10,656)	(61,966)	(4,834)	-	(84,925)
Net book value	950	12,509	1,908	-	-	15,367

Notes to the financial statements for the year ended 31 March 2012 (continued)

The net book value of mains and other infrastructure assets for the company is stated after the deduction of grants and contributions received since April 1990 amounting to £145.5m (2011: £138.6m) in order to give a true and fair view. All land and buildings are held as freehold.

Certain classes of the tangible fixed assets were professionally valued at October 2009 and March 2010 by independent qualified valuers, PricewaterhouseCoopers LLP (‘PwC’), a firm of independent chartered accountants. These valuations were performed in accordance with FRS 15 which requires that assets subject to a policy of revaluation should be carried at their current value. Current value is defined in FRS 15 as the lower of replacement cost and recoverable amount. The recoverable amount is further defined as the higher of Net Realisable Value (‘NRV’) and Value in Use (‘VIU’).

Having considered the above definitions of value, PwC concluded that the most reliable valuation method to determine the current value for the tangible fixed assets of a UK water company was a two step approach:

- Step 1: Estimating the business VIU, using a discounted cash flow (‘DCF’) model to determine the business enterprise value, cross-checked against the Regulatory Capital Value (‘RCV’), followed by

- Step 2: Allocating the VIU of the business (less relevant working capital balances, deferred tax liabilities and other adjustments) to individual classes of tangible fixed assets.

Such valuations were incorporated into the financial statements with the resulting revaluation adjustments taken to the revaluation reserve. The revaluations during the year ended 31 March 2010 resulted in a net revaluation surplus of £128.7m (revaluation £380.6m less capital reduction £238.6m and share capital movement £13.3m). Deferred tax has not been provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

If the revalued assets were stated on a historical cost basis, the historic cost before depreciation would be £1,381.5m (2011: £1,321.6m).

12 Investment

	2012 £000	2011 £000
Investment in subsidiary undertaking	**50**	50

The company has an investment of £50,000 in 100% of the £1 ordinary shares of a subsidiary company, Veolia Water Central Finance Plc. The principal activity of Veolia Water Central Finance Plc is to raise finance for the company. It made neither a profit nor loss in 2012 (2011: Nil).

13 Stocks

	2012 £000	2011 £000
Raw materials and consumables	**952**	851

14 Debtors

	2012 £000	2011 £000
Due within one year		
Trade debtors and customers' water charges	**19,184**	18,084
Deposit with parent company	**2,097**	-
Accrual for unbilled metered customers	**31,767**	27,423
Amounts due from fellow subsidiaries	**1,143**	2,985
Other debtors	**5,567**	3,253
Prepayments and accrued income	**2,449**	2,297
	62,207	54,042

Deposits with the parent company relate to overnight cash pooling.

15 Creditors – amounts falling due within one year

	2012 £000	2011 £000
Net obligations under finance leases (note 22)	**1,591**	1,484
Financing of assets used by the company and operated by other parties (note 22)	**856**	1,318
Amounts due to fellow subsidiaries	**4,973**	10,771
Amounts due to parent company	**-**	339
Loan from parent company	**46,000**	32,000
Payments received in advance	**38,619**	33,753
Trade creditors	**3,994**	8,400
Inter-company interest payable	**8,402**	8,402
Corporation tax	**3,404**	4,580
Taxation and social security	**792**	882
Other creditors	**6,332**	5,476
Capital accruals	**15,902**	22,157
Other accruals and deferred income	**11,476**	13,924
	142,341	143,486

16 Creditors – amounts falling due after more than one year

	2012 £000	2011 £000
Net obligations under finance leases (note 22)	**-**	1,591
Financing of assets used by the company and operated by other parties (note 22)	**16,751**	15,589
Deferred credit – contributions to surface assets	**3,719**	4,020
Loan from subsidiary company financed by bond issue	**196,728**	196,575
Loan from other group undertakings	**204,133**	207,517
4% irredeemable consolidated debenture stock	**9**	9
4% irredeemable debenture stock	**1**	1
4.25% irredeemable debenture stock	**1**	1
5% irredeemable debenture stock	**20**	20
5.25% irredeemable debenture stock	**1**	1
	421,363	425,324

During the year the company repurchased £399 nominal irredeemable outstanding debenture stock for cancellation (2011: £2,300).

The loan from the subsidiary company relates to a loan from Veolia Water Central Finance Plc. This represents the net proceeds of a bond issue made by Veolia Water Central Finance Plc and then lent to the company. On 13 July 2004 Veolia Water Central Finance Plc issued a £200 million bond at an interest rate of 5.875% and repayable in July 2026. The company has unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by Veolia Water Central Finance Plc in respect of the £200 million bond. This guarantee constitutes direct, general and unconditional obligations of the company which will at all times rank at least pari passu with all other present and future unsecured obligations. The amount due by the company to Veolia Water Central Finance Plc also incurs interest at 5.875%.

The loan from other group undertakings relates to a loan originally provided by Veolia Eau Compagnie Générale des Eaux. On 29 October 2009 this company issued a £201.3m loan at an interest rate of 2% above GBP LIBOR 3m rates maturing on 31 December 2024. The loan can be repaid at any time without penalty after giving the lender five business days notice. On 1 April 2010 the loan was transferred to Veolia Environnement Europe Services under the same terms. On 4 April 2012 the loan was transferred to Veolia Environnement SA under the same terms.

17 Provisions for liabilities

	Deferred tax £000	Insurance £000	Other £000	Total £000
At 1 April 2011	(40,579)	(1,222)	(852)	(42,653)
Charged to the profit and loss account	(3,847)	(910)	(734)	(5,491)
Utilised in the year	-	138	301	439
At 31 March 2012	**(44,426)**	**(1,994)**	**(1,285)**	**(47,705)**

Deferred tax

	2012 £000	2011 £000
Accelerated capital allowances	**83,239**	88,081
Other timing differences	**(1,049)**	(1,573)
Undiscounted provision for deferred tax	**82,190**	86,508
Discount	**(37,764)**	(45,929)
Discounted provision for deferred tax	**44,426**	40,579
Deferred tax asset on pension liability (see note 23)	**(4,664)**	(7,515)
Provision at the end of the year including deferred tax on pension liability	**39,762**	33,064

Deferred tax asset relating to pension liability

	2012 £000	2011 £000
At 1 April 2011	**7,515**	12,730
Deferred tax credit to the profit and loss account	**(1,713)**	(343)
Deferred tax (credit)/charge to the statement of total recognised gains and losses (see note 23):		
- on actuarial gain	**(1,233)**	(4,872)
- change in tax rate	**95**	-
At 31 March 2012	**4,664**	7,515

The deferred tax asset of £4.7m (2011: £7.5m) has been deducted in arriving at the net pension liability on the balance sheet.

Factors that may affect future tax charges:

Based on current capital investment plans, the group expects to continue to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Reference should also be made to note 9 regarding recently proposed changes to the UK tax system.

Insurance

Insurance represents the amount of the company's liability in respect of excesses on individual claims. This is based upon data provided by loss adjusters to insurers on levels of reserve and is calculated on settlement experience. It is expected that this provision will be utilised within 24 months.

Other provisions

Other provisions include £0.2m covering the risk of remedy to the buyer of St George's Hill land due to an encroachment issue and £0.3m for the charitable trust both of which are anticipated to be utilised within 24 months. In addition there is a £0.7m provision in relation to unfunded pension liabilities for ex-directors which will be utilised over the 20 years from January 2019.

18 Share capital

	2012 £000	2011 £000
Allotted, called up and fully paid share capital		
Ordinary shares (265,060,000 of £0.10 each)	**26,506**	26,506

19 Reserves

	Revaluation reserve £'000	Profit and loss account £000	Total £000
At 1 April 2011	126,961	190,588	317,549
Actuarial gain recognised in the pension scheme	-	4,741	4,741
Deferred tax arising thereon	-	(1,138)	(1,138)
Realisation of property revaluation gains of previous years	(1,793)	1,793	-
Profit for the financial year	-	35,889	35,889
Dividends paid	-	(32,582)	(32,582)
At 31 March 2012	**125,168**	**199,291**	**324,459**

20 Reconciliation of movements in shareholder's funds

	2012 £000	2011 £000
Profit for the financial year	**35,889**	21,252
Actuarial gain recognised in the pension scheme (shown in STRGL)	**4,741**	13,675
Deferred tax arising thereon	**(1,138)**	(4,872)
Total gains recognised for the year	**39,492**	30,055
Dividend paid	**(32,582)**	(34,882)
Net addition to shareholder's funds	**6,910**	(4,827)
Opening equity shareholder's funds	**344,055**	348,881
Closing equity shareholder's funds	**350,965**	344,055

21 Capital commitments

The directors have authorised a programme of capital expenditure (including infrastructure renewals), of which the contracted element not provided for in the accounts amounts to £17.8m (2011: £18.3m).

22 Commitments under finance and operating leases

	2012 £000	2011 £000
Maturity of debt:		
Finance leases		
In one year or less, or on demand	**1,591**	1,484
In more than one year but not more than two years	**-**	1,591
In more than two years but not more than five years	**-**	-
In more than five years	**-**	-
Net obligations due	**1,591**	3,075

	2012 £000	2011 £000
Financing of assets operated by third parties		
In one year or less, or on demand	**856**	1,318
In more than one year but not more than two years	**909**	819
In more than two years but not more than five years	**2,378**	2,548
In more than five years	**13,464**	12,222
Net obligations due	**17,607**	16,907

Operating leases

The company had annual commitments under non-cancellable operating leases as follows:

	2012 Land and buildings £000	2012 Other £000	2011 Land and buildings £000	2011 Other £000
Operating leases which expire				
Within one year	**-**	**244**	-	98
In two to five years	**-**	**539**	-	863
After five years	**1,547**	-	1,547	-
	1,547	**783**	1,547	961

23 Pension commitments

Merger of the Veolia UK Pension Plan and the Veolia Water Supply Companies' Pension Plan

Prior to 31 May 2011, the Veolia Water UK Plc group operated two defined benefit pension schemes; one is the Veolia Water Supply Companies' Pension Plan (VWSCPP) and the other the Veolia UK Pension Plan (VUKPP).

On 31 May 2011, each of the divisions of the VWSCPP was merged into its corresponding division of the VUKPP.

There have been no changes made to any members' benefits, either for past or future service. Prior to the merger a 60 day consultation exercise with members was undertaken.

In October 2010, Veolia Eau-CGE gave the Trustee a parent company guarantee capped at £10m in respect of the deficit in the Veolia Water Central division of the VWSCPP. Following the merger, the cap under the corresponding parent company guarantee for the Veolia Water Central division of the VUKPP was increased to £50m and the parent company guarantee for the Veolia Water Central division of the VWSCPP has been discharged.

Additional defined benefit pension arrangements were provided to former non executive directors and senior executives of the regulated businesses.

Presentation of pension commitments information

The last triennial valuation was performed at December 2010 before the merger. The triennial valuation disclosure below is therefore presented for both the VWSCPP and VUKPP schemes combined.

Financial disclosure notes presented in accordance with FRS 17: 'Retirement benefits' have been prepared as if the merged scheme had been in place in prior years. The comparatives therefore reflect an aggregation of the VWSCPP and VUKPP schemes. The company believes this approach benefits the users of the accounts enabling comparability and consistency.

Where it is not practicable to aggregate certain assumptions separate disclosure remains in place.

A summary of the last triennial valuation for the merged VWSCPP and VUKPP pension schemes is outlined below.

Veolia UK Pension Plan

Until 31 March 1996, the company was a member of The Water Companies' Association Pension Scheme, which provided benefits based on final pensionable pay. On 1 April 1996 the assets and liabilities of the General Utilities Plc subsidiaries which participated in the Water Companies' Association Scheme were transferred to a "mirror image" plan called the VWSCPP which was closed to new members. This plan continues to provide benefits on a no less favourable basis than those previously provided for existing members of the scheme.

A new scheme was inaugurated as at 1 April 1996, the Générale des Eaux UK Retirement Benefits Scheme. This scheme was merged with the Générale des Eaux UK Pension Plan on 1 April 1998 to form the VUKPP, which was open to all new staff and existing members. The scheme provides a selection of benefits based upon final pensionable pay or money purchase according to the members' wishes. The final salary section was closed to new members on 30 September 2004.

The latest formal valuation of the plan for the company for the merged VUKPP scheme, determined by an independent qualified actuary, was at 31 December 2010. The valuation was made on the "attained age" funding method. The actuarial valuation made the following assumptions:

Notes to the financial statements for the year ended 31 March 2012 (continued)

Rate of investment return	6.2% (pre-retirement), 5.2% (post-retirement)
Rate of increase in remuneration	4.8%
Rate of pension increase	2.8% (former members of VWSCPP scheme)
Rate of pension increase	3.3% (VUKPP other members)

The valuation as at 31 December 2010 stated the market valuation of the plan to be £219.0m with a funding level of 90%.

Contributions to the merged VUKPP scheme

Contributions to the VUKPP over the period ended 31 March 2012 were paid by members in accordance with the rules of the plan and by the company expressed as fixed monetary amounts according to the size of the relevant payroll and any surplus or deficit in the relevant division of the plan.

The contributions expected to be paid in the year from the balance sheet date are £8.0m (2011: £8.3m)

Non Executive Directors Pension Plan (NEDPP)

In prior years, a separate provision was created in respect of unfunded pension obligations to former employees and non executive directors (2011: £0.7m). These pension obligations have now been accepted by the Trustee of the VUKPP and therefore disclosing this separately will no longer be necessary.

Transfer between divisional schemes

On 1 October 2009 and 1 January 2010, 68 employees transferred employment from Veolia Water Central Limited to Veolia Water Shared Services Limited (42 and 26 employees for phases 1b and 1c respectively). 11 and 31 of these employees respectively are members of the final salary divisions of the VWSCPP and VUKPP schemes. The transferring members' benefits for service accrued from the date of transfer are provided by the corresponding Veolia Water UK Plc divisions of the VWSPP and VUKPP plans.

All 42 members elected to transfer their accrued benefits in order to retain continuous pensionable service and the final salary link. The associated assets and liabilities in respect of the transferees were transferred to the Veolia Water UK Plc divisions on 31 May 2010. The transfers resulted in settlement credits totalling £0.4m in the profit and loss account for the year ending 31 March 2011.

Principal assumptions

The present values of pension liabilities are estimated by discounting pension commitments, including salary growth, at an AA corporate bond yield.

Notes to the financial statements for the year ended 31 March 2012 (continued)

In calculating the liabilities of the plan, the following financial assumptions have been used:

	2012	2011	2010
Discount rate	**4.95% pa**	5.50% pa	5.65% pa
Salary growth	**4.70% pa**	4.90% pa	5.05% pa
RPI	**3.20% pa**	3.40% pa	3.55% pa
CPI*	**2.50% pa**	2.90% pa	-
VWSCPP pension-in payment increases	**2.50% pa**	2.90% pa	3.55% pa
VUKPP pension-in payment increases	**3.20% pa**	3.40% pa	3.55% pa
VWSCPP – Life expectancy for a male pensioner age 65 (yrs)	**22.6**	22.8	21.8
VWSCPP – Life expectancy for a male non-pensioner age 65 (yrs)	**24.7**	25.8	24.9
VUKPP – Life expectancy for a male pensioner age 65 (yrs)	**22.6**	23.0	22.6
VUKPP – Life expectancy for a male non-pensioner age 65 (yrs)	**24.7**	26.7	25.8

* The impact of statutory increases is now being linked to the movement in CPI rather than RPI based on legal advice received by the Trustees as follows:

- VUKPP - the change applies to deferred revaluation only
- VWSCPP (former members of) - the change applies to deferred revaluation and pension increases in payment

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.5% per annum unless otherwise prescribed by statutory requirements or the plan rules.

The assets of the above plans are held separately to those of the company, being invested by independent fund managers. Contributions to the plan are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company.

The total pensions charge including the defined contributions scheme for the period ended 31 March 2012 was £4.0m (2011: £4.2m)

The assets of the merged VUKPP scheme (including VWSCPP) and the weighted average expected rate of return were:

	VUKPP at 31 March 2012		VUKPP at 31 March 2011	
	Value £m	**Long term rate of return expected (% pa)**	Value £m	Long term rate of return expected (% pa)
Equities	**120.3**	**6.90**	90.7	7.85
Bonds	**45.6**	**5.30**	63.5	5.55
Gilts/cash	**71.2**	**3.40**	63.5	4.35
Fair value of assets	**237.1**		217.7	

Notes to the financial statements for the year ended 31 March 2012 (continued)

VUKPP and NEDPP schemes – amounts for the current period and the previous four periods represent the merged scheme, including VWSCPP comparatives, and the NEDPP are as follows:

	Year ended 31 March 2012	Year ended 31 March 2011	Year ended 31 March 2010	Year ended 31 March 2009	15 months to 31 March 2008
Defined benefit obligation (£m)	**256.5**	246.6	262.6	197.0	233.2
Plan assets (£m)	**237.1**	217.7	217.1	184.4	207.6
Surplus/(deficit) (£m)	**(19.4)**	(28.9)	(45.5)	(12.6)	(25.6)
Difference between expected and actual return on plan assets:					
Percentage of plan assets	**(4%)**	1%	18%	(21%)	(8%)
Experience gains/(losses) on plan liabilities:					
Percentage of plan liabilities	**1%**	0%	0%	0%	0%

Reconciliation of present value of scheme liabilities:

	VUKPP £000	**NEDPP £000**	**Total £000**
At 1 April 2010	261,858	751	262,609
Current service cost	3,819	-	3,819
Interest cost	14,245	40	14,285
Settlement	(8,097)	-	(8,097)
Actuarial (gain)/loss	(15,980)	21	(15,959)
Benefits paid	(10,703)	(92)	(10,795)
Contributions by scheme participants	758	-	758
At 31 March 2011	245,900	720	246,620
Current service cost	3,531	-	3,531
Interest cost	13,330	-	13,330
Transfer of NEDPP scheme liability	720	(720)	-
Actuarial loss	3,475	-	3,475
Benefits paid	(11,143)	-	(11,143)
Contributions by scheme participants	700	-	700
At 31 March 2012	**256,513**	**-**	**256,513**

Reconciliation of fair value of scheme assets:

	VUKPP £000	NEDPP £000	Total £000
At 1 April 2010	217,147	-	217,147
Contributions paid by employer	8,226	-	8,226
Contribution by scheme participants	758	-	758
Expected return on scheme assets	12,307	-	12,307
Settlement	(7,734)	-	(7,734)
Actuarial loss	(2,284)	-	(2,284)
Benefits paid	(10,704)	-	(10,704)
At 31 March 2011	217,716	-	217,716
Contributions paid by employer	8,837	-	8,837
Contribution by scheme participants	700	-	700
Expected return on scheme assets	12,752	-	12,752
Actuarial gain	8,216	-	8,216
Benefits paid	(11,143)	-	(11,143)
At 31 March 2012	**237,078**	**-**	**237,078**
Pension liability before deferred tax	28,184	720	28,904
Related deferred tax	(7,328)	(187)	(7,515)
Net pension liability at 31 March 2011	**20,856**	**533**	**21,389**
Pension liability before deferred tax	19,435	-	19,435
Related deferred tax	(4,665)	-	(4,665)
Net pension liability at 31 March 2012	**14,770**	**-**	**14,770**

The amounts recognised in the profit and loss account are as follows:

	VUKPP £000	NEDPP £000	Total £000
For the year ended 31 March 2011			
Current service cost	3,819	-	3,819
Expected return on scheme assets	(12,307)	-	(12,307)
Interest on pension scheme liabilities	14,245	40	14,285
Net settlement credit	(363)	-	(363)
Total charge	5,394	40	5,434
For the year ended 31 March 2012			
Current service cost	3,531	-	3,531
Expected return on scheme assets	(12,752)	-	(12,752)
Interest on pension scheme liabilities	13,330	-	13,330
Total charge	**4,109**	**-**	**4,109**

Total actuarial gains and losses recognised in the statement of total gains and losses:

	VUKPP £000	NEDPP £000	Total £000
For the year ended 31 March 2011			
Actuarial losses on scheme assets	(2,284)	-	(2,284)
Actuarial gains/(losses) on scheme liabilities	15,980	(21)	15,959
Total credit/(charge)	13,696	(21)	13,675
Deferred tax arising thereon	(4,877)	5	(4,872)
Credit/(charge) after deferred tax	8,819	(16)	8,803
For the year ended 31 March 2012			
Actuarial gains on scheme assets	8,216	-	8,216
Actuarial (losses)/gains on scheme liabilities	(4,195)	720	(3,475)
Total credit	4,021	720	4,741
Deferred tax arising thereon	(965)	(173)	(1,138)
Credit after deferred tax	**3,056**	**547**	**3,603**

24 Financial instruments and risk management

The company's financial instruments comprise borrowings, debentures, cash and liquid resources, and various items, such as trade debtors and trade creditors that arise directly from operations. The main purpose of these financial instruments is to raise finance for the company's operations.

It is the company’s policy, and has been throughout the year under review, that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged during the year.

The company finances its operations through a mixture of retained profits, bank borrowings, borrowings from its subsidiary company and finance leases. Treasury policies are agreed in conjunction with the parent company (including liquidity and interest rate risks). The company does not undertake speculative transactions. Interest rate exposure is primarily managed by using a mixture of fixed and floating rate borrowings. Liquidity is primarily managed by the utilisation of short-term borrowings from the immediate parent company.

Further disclosures are included in notes 15, 16 and 22.

Financial assets: excluding non-debt receivables due within one year

The company has £2.1m (2011: £nil) held on deposit with its parent company.

Financial liabilities: excluding non-debt current liabilities

The company has a £46.0m (2011: £32.0m) loan from its parent company.

The company has an overdraft of £nil (2011: £0.3m) from its parent company.

Notes to the financial statements for the year ended 31 March 2012 (continued)

The interest rate profile of the company's financial liabilities excluding non-debt current liabilities and deferred credits at 31 March 2012 was as follows:

As at	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities with no interest £000
31 March 2012	**466,092**	**205,725**	**260,367**	**-**
31 March 2011	456,106	210,593	245,513	-

Fixed rate liabilities represent the loan by the company's subsidiary company, irredeemable debenture stock and the financing of assets used the company and operated by other parties. The current interest rate on the floating rate financial liabilities is 7.25%.

Fixed rate financial liabilities

As at	Weighted average interest rate %	Weighted average period for which rate is fixed* Years	Weighted average period until maturity Years
31 March 2012			
- Loan from subsidiary	**6.0**	**14.0**	**14.0**
- Loan from parent	**1.1**	**0.1**	**0.1**
- Other	**0.1**	**35.4**	**35.4**
31 March 2011			
- Loan from subsidiary	6.0	15.0	15.0
- Loan from parent	1.0	0.1	0.1
- Other	5.5	14.0	14.0

*This calculation excludes the irredeemable debenture stock where the interest rate is fixed in perpetuity (see note 16).

The maturity profile for the company's financial liabilities at 31 March 2012 was as follows:

	2012 £000	2011 £000
In one year or less or on demand (bank overdrafts, inter company borrowings and obligations under finance leases)	**48,447**	34,802
In more than one year but not more than two years	**909**	2,410
In more than two years but not more than five years	**2,378**	2,548
In more than five years	**414,358**	416,346
	466,092	456,106

All financial liabilities due after one year comprise obligations under finance leases, its financing of assets used by the company and operated by other parties, irredeemable debenture stock, amounts due to its subsidiary company and other group undertakings.

The company has various undrawn committed borrowing facilities. The undrawn facilities available at 31 March 2012 in respect of which all conditions precedent had been met were as follows:

	2012 £000	2011 £000
Expiring in one year or less	**-**	-
Expiring in more than one year but not more than two years	**54,000**	-
Expiring in more than two years	**-**	68,000
	54,000	68,000

Fair values of financial assets and liabilities

Other than the fixed rate liability in respect of the financing of assets by the company operated by other parties, the fair values calculated by market interest rates of the financial instruments are not materially different from book values.

The short-term loan from the company's parent company is repayable on demand and therefore disclosed as a current liability. This loan is not expected to be called for repayment, and the parent company has confirmed its intention to continue to support the company.

The company has taken advantage of the exemption of FRS 29: 'Financial Instruments: Disclosures' and has not disclosed information required by that standard, as the group's consolidated financial statements, in which the company is included, provide equivalent disclosures.

25 Post balance sheet events

On 4 April 2012 the loan originally issued by Veolia Eau Compagnie Générale des Eaux and transferred to Veolia Environnement Europe Services in April 2010 was transferred to Veolia Environnement SA under the same terms.

26 Ultimate parent company, controlling party and related parties

The immediate parent undertaking of the company is Veolia Water Capital Funds Limited. Veolia Water Capital Funds Limited, a company registered in England and Wales, is also the parent undertaking of the smallest group to consolidate the statutory financial statements of Veolia Water Central Limited. Veolia Environnement SA, a company incorporated in France, is the parent undertaking of the largest group to consolidate these statutory financial statements and is the ultimate parent company and controlling party.

The company has taken advantage of the exemption in paragraph 3(c) of FRS 8: 'Related party disclosures' not to disclose transactions with other group companies which meet the criteria that all subsidiary undertakings which are party to the transactions are wholly owned by the ultimate controlling parent.

Copies of the group financial statements of Veolia Water Capital Funds Limited are available from the Company Secretary, Veolia Water Capital Funds Limited, Fifth Floor, Kings Place, 90 York Road, London, N1 9AG.

Copies of the group financial statements of Veolia Environnement SA are available from the Head Office at 36 – 38 Avenue Kléber, 75116 Paris, France.

Veolia Water Central Limited

Financial Statistics
for the year ended 31 March 2012

Profit and Loss accounts

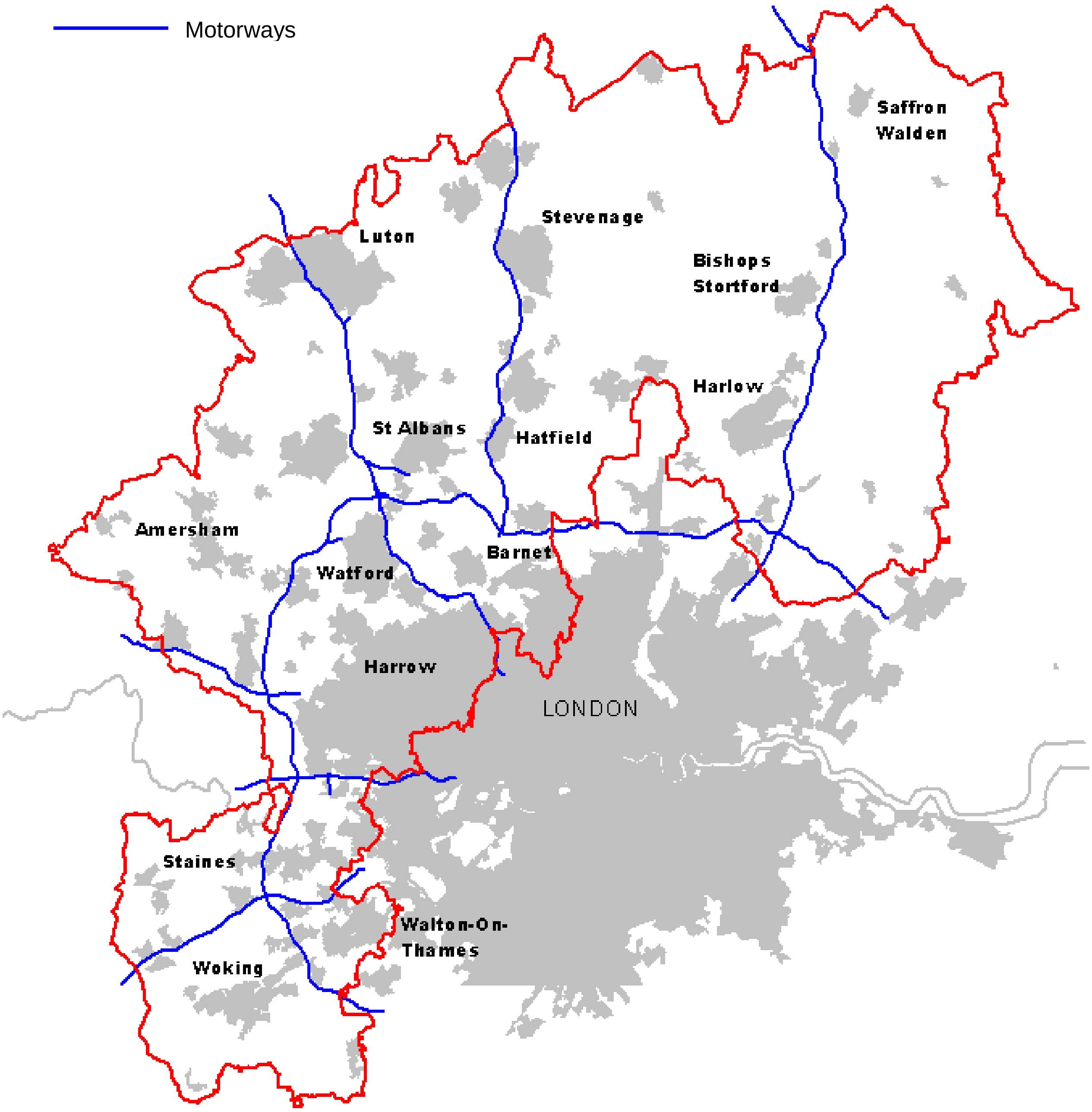
	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000	15 months to 31 March 2008 £000
Turnover	**253,040**	239,647	234,373	228,912	274,817
Net operating profit	**65,034**	53,103	42,583	59,964	77,455
Profit before taxation	**49,009**	30,407	34,004	45,001	66,018
Retained profit/(loss) for period	**3,307**	(13,630)	(162,675)	(15,838)	20,823
Profit and Loss account at 1 April/1 January	**190,588**	193,634	81,643	92,394	84,862
Transfer (from)/to reserves	**8,703**	(3,046)	111,991	(10,751)	7,532
Profit and Loss account at 31 March	**199,291**	190,588	193,634	81,643	92,394
Basic and diluted earnings per share	**256.0 p**	161.0p	212.0p	184.0p	419.3p

Balance Sheets

	31 March 2012 £000	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000	31 March 2008 £000
Fixed assets	**913,272**	920,575	931,555	555,095	537,648
Current assets					
Stocks and work in progress	**952**	851	596	611	552
Debtors	**62,207**	54,042	55,253	49,897	48,982
Cash in bank and at hand	**713**	1,439	1,154	831	2,260
	63,872	56,332	57,003	51,339	51,794
Creditors - amounts falling due within one year					
Other creditors	**(142,341)**	(143,486)	(144,139)	(181,189)	(148,338)
Net current liabilities	**(78,469)**	(87,154)	(87,136)	(129,850)	(96,544)
Total assets less current liabilities	**834,803**	833,421	844,419	425,245	441,104
Creditors - amounts falling due after more than one year	**(483,838)**	(489,366)	(495,538)	(273,652)	(278,760)
Net assets	**350,965**	344,055	348,881	151,593	162,344
Capital and reserves					
Called up share capital	**26,506**	26,506	26,506	13,228	13,228
Profit and Loss account	**199,291**	190,588	193,634	81,643	92,394
Share Premium	-	-	-	51,222	51,222
Other Reserves	**125,168**	126,961	128,741	-	-
Capital redemption reserve	-	-	-	5,500	5,500
Capital Employed	**350,965**	344,055	348,881	151,593	162,344

Veolia Water Central Limited

Area of Supply



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